Saskatchewan Transportation Company

Second Quarter Report 2014

For the quarter ending June 30, 2014

2014 2nd Quarter Corporate Reporting

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Management Discussion and Analysis

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC) operations in the second quarter of 2014. From a management perspective, it highlights the primary factors that impacted our operations and the financial results of the Company over the past six months.

This MD&A compares the operational outcomes of the second quarter of 2014 to the corresponding quarter in the previous year (second quarter of 2013) and to the anticipated financial position of the Company over the full year. It also discusses any emerging issues that will have an impact on the Company's fiscal position.

Passenger Services:

In the first half of 2014, STC coaches traveled approximately 1,480,000 miles, serving 253 Saskatchewan communities. In May 2013, the Highway Traffic Board approved STC's request to discontinue three under-utilized routes. One route was approved for discontinuance in May 2013 with the other two routes approved for discontinuance on January 1, 2014. The discontinuance of the two routes at the beginning of the year has reduced the number of communities served from 284 to 253 at the end of the second quarter.

Revenues from passenger operations in this quarter were $1,850,000 up from $1,808,000 in revenues reported in the second quarter of 2013. Year to date passenger revenues were $3,726,000, compared to $3,755,000 for the same period in 2013.

Expenses associated with operating passenger services were $4,210,000 up from the 2013 figure of $4,187,000. Year to date passenger operating expenses were $8,246,000, up from the 2013 total for the same period of $8,132,000 largely due to increased fuel prices in the first half of 2014.

Operating losses for passenger services in the quarter were $2,360,000, compared to a loss of $2,379,000 in the second quarter of 2013. Year to date losses were $4,520,000, compared to a loss of $4,377,000 for the same period in 2013.

Total ridership for the first half of 2014 was 130,918, compared to 134,972 in the same period of 2013, a decrease of approximately 3.0%.

STC last implemented a 4.7% passenger fare increase effective October 15, 2013.

Express Services:

Through its network of 174 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America. Due to the discontinuance of the two under-utilized routes on January 1, 2014, the number of agencies was reduced from 192 to 174 from the second quarter of 2013.

In the second quarter of 2014, revenues from express operations were $1,958,000, down from the revenues of $1,980,000 reported in the second quarter of 2013. Year to date express revenues were $3,605,000 as compared to $3,551,000 for the same period in 2013.

Expenses associated with operating express services in the second quarter of 2014 were $1,578,000, up from the 2013 second quarter figure of $1,492,000. Year to date express operating expenses were $3,014,000, as compared to $2,892,000 for the same period in 2013.

Profits realized for express operations in the second quarter were $380,000, compared to a profit of $488,000 in the second quarter of 2013. Year to date profits were $591,000 compared to $659,000 for the same period of 2013.

STC last implemented an express rate increase effective February 1, 2014.

Maintenance Services:

STC operates two Maintenance Facilities, one in Saskatoon for major bus maintenance, and one in Regina for more routine servicing.

In the second quarter of 2014, expenses associated with maintaining the Company's fleet (included in passenger and express services above) were $1,032, 000 a decrease compared to $1,048,000 in the second quarter of 2013. Year to date maintenance expenses for the Company's fleet were $2,006,000 as compared to $1,964,000 for the same period of 2013.

The Company also uses these facilities to perform maintenance work for other transportation companies. The revenues derived from this service in the second quarter of 2014 were $117,000 compared to $75,000 in the second quarter of 2013. Year to date revenues were $246,000 compared to $169,000 for that same period in 2013. The increase in revenue is due to an increase in fuel prices being charged to maintenance customers.

Expenses associated with such work were $69,000 in the second quarter of 2014 compared to $47,000 in the second quarter of 2013. Year to date expenses for third party maintenance work were $148,000 compared to $105,000 for the same period of 2013.

Financial Summary:

Overall, STC's revenues for the second quarter of 2014 amounted to $4,095,000, compared to $4,082,000 in the second quarter of 2013. Year to date revenues were $7,898,000 as compared to $7,822,000 for the same period of 2013.

Expenses for the second quarter were $7,779,000, compared to $7,602,000 for 2013. Year to date expenses were $15,150,000 as compared to $14,656,000 for the same period of 2013.

The Company's loss before grants for the quarter was $3,684,000, compared to $3,520,000 in the second quarter of 2013. Year to date losses were $7,252,000 as compared to $6,834,000 for the same period of 2013.

STC has been approved for an operating grant of $10.3 million from its holding company, the Crown Investments Corporation (CIC) of Saskatchewan. Current projections for the year, based on the second quarter, indicate that the Company will require the full amount of grant funding.

In this year's first two quarters, STC drew down $6.5 million of the operating grant funds available from CIC. STC had no outstanding loans or indebtedness at the end of the quarter.

At the end of this quarter, the Province of Saskatchewan's equity in STC was $7,709,000 compared to $6,780,000 in the second quarter of 2013.

Saskatchewan Transportation Company
Statement of Financial Position
(unaudited)

	(Thousands of Dollars) As at June 30, 2014	As at December 31, 2013
Assets		
Current		
Cash	$ 1,942	$ 1,642
Accounts receivable	985	1,281
Inventories	310	330
Prepaid expenses	676	518
Assets held for sale	96	3
	4,009	3,774
Non-current		
Property and equipment	34,750	35,779
	$ 38,759	**$ 39,553**
Liabilities and Province's Equity		
Liabilities		
Current		
Trade and other payables	$ 2,308	$ 2,950
Non-current		
Deferred capital grant	28,742	29,592
	31,050	32,542
Province of Saskatchewan's Equity		
Contributed surplus	465	465
Retained earnings	7,244	6,546
	7,709	7,011
	$ 38,759	**$ 39,553**

See accompanying notes

Saskatchewan Transportation Company
Statement of Comprehensive Income (Loss)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	(Thousands of Dollars)			
	2014	2013	2014	2013
Revenue				
Express services	$ 1,958	$ 1,980	$ 3,605	$ 3,551
Passenger services	1,850	1,808	3,726	3,755
Other	277	216	558	438
Gain on disposal of property and equipment	10	78	9	78
	4,095	4,082	7,898	7,822
Expenses				
Operating costs other than those listed below	2,939	2,778	5,534	5,288
Salaries, wages and short-term employee benefits	4,061	4,065	8,035	7,868
Depreciation	779	759	1,581	1,500
	7,779	7,602	15,150	14,656
Loss before the following	(3,684)	(3,520)	(7,252)	(6,834)
Operating grant	3,900	2,900	6,500	5,200
Capital grant	718	687	1,450	1,352
Total comprehensive income (loss)	**$ 934**	**$ 67**	**$ 698**	**$ (282)**

See accompanying notes

Saskatchewan Transportation Company
Statement of Changes in Equity
(unaudited)

(Thousands of Dollars)
Attributable to the Province of Saskatchewan

	Retained Earnings	Contributed Surplus	Total Equity
Balance at December 31, 2012	$ 6,597	$ 465	$ 7,062
Total comprehensive loss	(282)	-	(282)
Balance at June 30, 2013	6,315	465	6,780
Balance at July 1, 2013	$ 6,315	$ 465	$ 6,780
Total comprehensive income	231	-	231
Balance at December 31, 2013	6,546	465	7,011
Balance at December 31, 2013	**6,546**	**465**	**7,011**
Total comprehensive income	**698**	-	**698**
Balance at June 30, 2014	**$ 7,244**	**$ 465**	**$ 7,709**

See accompanying notes

Saskatchewan Transportation Company
Statement of Cash Flows
(unaudited)

	Six months ended June 30 (Thousands of Dollars) 2014	2013
Operating Activities		
Total comprehensive income (loss)	$ 698	$ (282)
Items not involving cash:		
Depreciation	1,581	1,500
Gain on disposal of property and equipment	(9)	(78)
Recognition of capital grant	(1,450)	(1,352)
Net change in non-cash working capital	(484)	821
Cash provided by operating activities	336	609
Investing Activities		
Additions to property and equipment	(652)	(955)
Proceeds on disposal of property and equipment	16	80
Cash used in investing activities	(636)	(875)
Financing Activities		
Capital grant received	600	800
Operating demand loan	-	500
Repayment of operating demand loan	-	(500)
Cash provided by financing activities	600	800
Increase in cash	300	534
Cash, beginning of year	1,642	1,043
Cash, end of period	**$ 1,942**	**$ 1,577**

See accompanying notes

Saskatchewan Transportation Company
Notes to Condensed Financial Statements
For the period-ended June 30, 2014

1. Status of Saskatchewan Transportation Company

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. STC's powers, duties and conditions were affirmed in 1993 by Order in Council #5. STC is continued under *The Crown Corporations Act, 1993*. STC is a corporation domiciled in Canada. The address of the Company's registered office and principal place of business is 1717 Saskatchewan Drive, Regina, SK, S4P 2E2.

The financial results of STC are included in the consolidated financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The results included in these condensed interim financial statements should not be taken as indicative of the performance to be expected for a full year due to the seasonal nature of corporate operations.

2. Basis of preparation

a. Statement of compliance

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting*. These interim results do not include all the information required for full annual financial statements and should be read in conjunction with STC's audited annual financial statements for the year-ended December 31, 2013.

The condensed interim financial statements were authorized for issue by STC's Board of Directors on August 25, 2014.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Company's functional currency.

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Depreciation is based on the estimated useful lives of property and equipment. Tangible assets are reviewed for impairment annually using estimates of recoverable amounts to determine if there is an impairment loss. The accrual for compensated absences is based on historical usage.

3. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those applied in STC's audited annual financial statements for the year-ended December 31, 2013.